



Heather Shirley Smith
Deputy General Counsel

Duke Energy
40 W. Broad Street
Suite 690
Greenville, SC 29601

o: 864.370.5045
f: 864.370.5183

heather.smith@duke-energy.com

January 18, 2019

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
The Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia SC 29210

Re: **Application of Duke Energy Progress, LLC for Adjustments in Electric
Rate Schedules and Tariffs and Request for Accounting Order
Docket No.: 2018-318-E**

Dear Mrs. Boyd:

Enclosed for filing please find Duke Energy Progress, LLC's (the "Company") Supplemental Direct Testimony of Laura Bateman, Bateman Supplemental Exhibit 1 and Updated Bateman Exhibit 3. This filing presents illustrative updates to certain accounting and pro forma adjustments and additional adjustments to the Company's cost of service as shown on Bateman Supplemental Exhibit 1. Additionally the Company presents updates to the proposed Excess Deferred Income Tax ("EDIT") rider as shown in Updated Bateman Exhibit 3.

Please do not hesitate to contact me if you have any questions or require any further information.

Sincerely,

Heather Shirley Smith

Enclosure

cc: Nanette Edwards, Esq., Office of Regulatory Staff
Dawn Hipp, Office of Regulatory Staff
Jeffrey M. Nelson, Esq., Office of Regulatory Staff
Ms. Carri Grube Lybarker, Esq., SC Department of Consumer Affairs
Ms. L. Becky Dover, Esq., SC Department of Consumer Affairs

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2018-318-E

In the Matter of:)	SUPPLEMENTAL DIRECT
)	TESTIMONY OF
Application of Duke Energy Progress, LLC)	LAURA BATEMAN
For Adjustments in Electric Rate Schedules)	FOR
and Tariffs)	DUKE ENERGY PROGRESS, LLC

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**
2 **POSITION.**

3 A. My name is Laura A. Bateman and my business address is 411 Fayetteville Street,
4 Raleigh, North Carolina. I am a Director of Rates & Regulatory Planning,
5 employed by Duke Energy Carolinas, LLC, testifying on behalf of Duke Energy
6 Progress, LLC (“DE Progress” or the “Company”).

7 **Q. ARE YOU THE SAME LAURA A. BATEMAN WHOSE DIRECT**
8 **TESTIMONY AND EXHIBITS WERE FILED IN THIS DOCKET ON**
9 **NOVEMBER 8, 2018?**

10 A. Yes.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my supplemental direct testimony is to present updates to certain
14 accounting and pro forma adjustments and present additional adjustments to the
15 Company’s cost of service as shown on Bateman Supplemental Exhibit 1. As I
16 stated on page 12 of my direct testimony, several adjustments included in the
17 Company’s original filing contained projections that the Company reserved the
18 right to update with actuals prior to the hearing. In my supplemental direct
19 testimony, I update those adjustments to reflect actuals. I also update or present
20 adjustments based on circumstances and events that have occurred since the
21 Company made its November 8, 2018 filing. Finally, I present updates to the

1 Company's proposed Excess Deferred Income Tax ("EDIT") rider as shown in
2 Updated Bateman Exhibit 3.

**II. UPDATES TO THE COMPANY'S TEST YEAR
OPERATING REVENUE, EXPENSES AND RATE BASE**

3
4 **Q. PLEASE DESCRIBE BATEMAN SUPPLEMENTAL EXHIBIT 1.**

5 A. Bateman Supplemental Exhibit 1 presents the illustrative impact of additional
6 adjustments to the Company's cost of service. While DE Progress is not
7 requesting a change to its proposed revenue requirement as a result of these
8 adjustments at this time, Bateman Supplemental Exhibit 1 illustrates the impact
9 these adjustments (e.g., updating costs to reflect actuals) would have on the
10 Company's cost of service.

11 **Q. WAS BATEMAN SUPPLEMENTAL EXHIBIT 1 PREPARED BY YOU OR**
12 **AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?**

13 A. Yes.

14 **Q. PLEASE EXPLAIN THE ADJUSTMENTS THAT ARE PRESENTED IN**
15 **BATEMAN SUPPLEMENTAL EXHIBIT 1.**

16 A. **Line 8 - Annualize depreciation on year end plant balances**

17 This adjustment has been updated to remove the depreciation expense related to
18 the Lilesville-Rockingham transmission line that was constructed and placed in
19 service to satisfy Federal Energy Regulatory Commission ("FERC") market
20 mitigation requirements related to the Duke-Progress merger. At this time, the
21 only transmission market mitigation project for which the Company is seeking to
22 recover costs is the Greenville-Kinston Dupont 230 kV line. Therefore, the

1 depreciation expense associated with the Lilesville-Rockingham transmission line
2 has been removed.

3 **Line 11 - Adjust for post test year additions to plant in service**

4 This adjustment has been updated to reflect the actual additions to plant in service
5 from October 1, 2018 through December 31, 2018. These additions were
6 estimated in the Company's November 8, 2018 filing.

7 **Line 17 - Adjust for previously deferred amounts - Harris COLA,
8 GridSouth, Fukushima/Cybersecurity, 2014 Storms**

9 The Fukushima/Cybersecurity deferred balance in this adjustment was updated to
10 reflect the actual costs incurred from October 1, 2018 through December 31,
11 2018. These costs were estimated in the Company's November 8, 2018 filing.

12 **Line 18 - Amortize deferred environmental costs**

13 This adjustment has been updated to reflect the actual costs and plant additions
14 from October 1, 2018 through December 31, 2018. These costs were estimated in
15 the Company's November 8, 2018 filing. This adjustment was also updated to
16 remove costs for certain seeps repair work for which the Company is not seeking
17 recovery.

18 **Line 19 - Amortize deferred cost balance related to SC AMI**

19 This adjustment has been updated to reflect the actual South Carolina Advanced
20 Metering Infrastructure ("SC AMI") plant additions from October 1, 2018
21 through December 31, 2018. These amounts were estimated in the Company's
22 November 8, 2018 filing.

23 **Line 23 - Update benefits costs**

1 This adjustment has been updated to reflect the actual 2018 expenses for active
2 medical benefits. These amounts were projected in the Company's November 8,
3 2018 filing.

4 **Line 25 - Amortize rate case costs**

5 This adjustment has been updated to reflect the actual rate case costs from
6 October 1, 2018 through December 31, 2018. These amounts were estimated in
7 the Company's November 8, 2018 filing.

8 **Line 30 - Adjust for Customer Connect additional expense and deferral**

9 The Customer Connect deferred balance in this adjustment was updated to reflect
10 the actual costs incurred from October 1, 2018 through December 31, 2018.
11 These costs were estimated in the Company's November 8, 2018 filing.

12 **Line 31 - Adjust vegetation management expenses**

13 This adjustment was updated to reflect known increases in contract rates that were
14 finalized in December 2018. The amount of these increases was not known at the
15 time of the original filing.

16 **Line 32 - Synchronize interest expense with end of period rate base**

17 This adjustment has been updated to reflect a change to income taxes.
18 Specifically, because of the updates to rate base described in this supplemental
19 testimony, interest costs have been updated resulting in a flow through effect to
20 income taxes.

21 **Line 33 - Adjust 1/8 O&M for accounting and pro-forma adjustments**

22 This adjustment has been updated to reflect the changes to cash working capital
23 resulting from the other changes discussed in this supplemental testimony.

1 **Line 35 - Adjust deferred cost balance related to SC Grid**

2 This adjustment has been updated to reflect the actual SC grid improvement costs
3 and plant additions from October 1, 2018 through December 31, 2018. These
4 costs were estimated in the Company's November 8, 2018 filing.

5 **Line 36 – Remove certain expenses - NEW**

6 This adjustment was added to remove expenses that may either have been
7 inadvertently booked above the line during the Test Period or inadvertently
8 allocated to South Carolina. While it is possible these charges were reversed in
9 subsequent journal entries, the Company has opted to remove the amounts from
10 this case.

11 **Line 37 - Adjust for Allocation of PUC License Tax Expense - NEW**

12 This adjustment was added to correct an allocation of the South Carolina license
13 fee imposed on South Carolina property and gross receipts under South Carolina
14 Code §12-20-100 in the per books cost of service. In the original filing, these
15 taxes were inadvertently allocated to all jurisdictions. This pro forma updates the
16 allocation to direct assign the portions of the tax based on gross receipts and
17 distribution property to South Carolina. The portions related to transmission,
18 production, and general plant are still allocated to all jurisdictions..

19 **Line 38 - Adjust for ongoing payment obligation - NEW**

20 On November 14, 2018, DE Progress entered into a confidential settlement
21 agreement to resolve litigation related to a contract for the sale of gypsum, a
22 byproduct of coal plant production. The Company believes the settlement
23 agreement will result in lower costs to customers as compared to alternative

1 outcomes. The agreement obligates the Company to make payments over a
2 specified period of time. This adjustment increases operating expense to include
3 recovery of these payments.

4 **Q. DOES BATEMAN SUPPLEMENTAL EXHIBIT 1 REFLECT ANY**
5 **CHANGE IN THE REVENUE REQUIREMENT SOUGHT BY THE**
6 **COMPANY IN THIS PROCEEDING?**

7 A. No, not at this time. DE Progress will file an updated Bateman Exhibit 1 at the
8 time of hearing, which will incorporate the additional cost of service adjustments
9 reflected in Bateman Supplemental Exhibit 1, as well as other possible
10 adjustments to cost of service to the extent the actual changes are based on
11 circumstances and events occurring up to the time the hearing is closed.

12 **Q. IN YOUR OPINION, DO THESE ACCOUNTING AND PRO FORMA**
13 **ADJUSTMENTS REFLECT KNOWN AND MEASURABLE CHANGES**
14 **TO THE COMPANY'S TEST YEAR OPERATING EXPENSES,**
15 **REVENUES, AND RATE BASE?**

16 A. Yes.

III. UPDATES TO THE COMPANY'S PROPOSED EDIT RIDER

17 **Q. PLEASE EXPLAIN THE UPDATES TO THE COMPANY'S PROPOSED**
18 **EDIT RIDER SHOWN IN UPDATED BATEMAN EXHIBIT 3?**

19 A. Several updates were made to this exhibit to include actual balances or more
20 recently available information. The total impact of the updates was a decrease in
21 the Year 1 decrement rider of \$122,000 (from -\$10,008,000 to -\$9,887,000), as
22 shown on Page 2, Line 6. Below is the detail of the updates:

- 1 • The federal EDIT liability balances were updated as of December 31, 2018, as
2 shown on Line 1a of Page 1. These updates reflect true-ups that were made
3 during 2018 to the December 31, 2017 balances.
- 4 • The ARAM rate, the amortization rate required for the federal EDIT –
5 protected balance, on line 7 of Page 1, was also updated based on a more
6 recent calculation by the Company's Tax Department.
- 7 • The deferred revenues shown on Line 3 of Page 1 and calculated on Page 3
8 were updated with actual deferred amounts for October 1, 2018 through
9 December 31, 2018. These amounts were estimated in the Company's
10 November 8, 2018 filing.
- 11 • The calculation of the NC EDIT on Page 4 was updated with the actual
12 balance as of December 31, 2018 in line 7. This amount was estimated in the
13 Company's November 8, 2018 filing.

IV. CONCLUSION

- 14 **Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL DIRECT**
15 **TESTIMONY?**
- 16 A. Yes.

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2018-318-E**

IN RE: Application of Duke Energy Progress,)
 LLC for Adjustments in Electric Rate) **CERTIFICATE OF SERVICE**
 Schedules and Tariffs and Request for an)
Accounting Order)

This is to certify that I, Toni Hawkins, a paralegal with the law firm of Robinson Gray Stepp & Laffitte, LLC have this day served copies of **Duke Energy Progress LLC's Supplemental Direct Testimony of Laura Bateman** in the foregoing matter via electronic mail as follows:

Alexander W. Knowles
 Email: aknowles@regstaff.sc.gov
Andrew M. Bateman
 Email: abateman@regstaff.sc.gov
Becky Dover
 Email: bdover@scconsumer.gov
Bess J DuRant
 Email: bdurant@sowelldurant.com
Carri Grube - Lybarker
 Email: clybarker@scconsumer.gov
Carrie M. Harris
 Email: charris@spilmanlaw.com
Derrick Price Williamson
 Email: dwilliamson@spilmanlaw.com
Garrett A. Stone
 Email: gas@smxblaw.com
Michael K. Lavanga
 Email: mkl@smxblaw.com
Richard L. Whitt*
 Email: RLwhitt@austinrogerspa.com
Robert R. Smith, II
 Email: robsmith@mvalaw.com
Stephanie U. (Roberts) Eaton
 Email: sroberts@spilmanlaw.com
Steven W. Hamm
 Email: shamm@regstaff.sc.gov
Thadeus B Culley*
 Email: thad@votesolar.org

Dated at Columbia, South Carolina this 18th day of January, 2019.

